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SUBJECT: ROK-DPRK SUMMIT FOLLOW-UP: ROK CEOS NOT BULLISH ON INVESTING

Classified By: Amb. Alexander Vershbow. Reasons 1.4 (b/d).

¶1. (C) SUMMARY: Chief Executives of four of South Korea's largest business groups, all of whom joined President Roh Moo-hyun's delegation to the October 2-4 summit with Kim Jong-il, told the Ambassador at an October 23 meeting that the summit experience reinforced their view that North Korea's social capital, infrastructure, and mindset would have to change before their companies would consider large-scale investments there. They stressed that North Korea's relations with the USG and ROKG would also have to improve, and asked for the Ambassador's assistance to get FTA coverage for products made in the Kaesong Industrial Complex (KIC). The Ambassador replied that while the FTA created a mechanism for considering that question in the future, it would first require resolution of both the nuclear issue and worker rights concerns. The business executives noted that following the lunch they had been summoned to the Blue House for a summit follow-up meeting. On the margins of the meeting, Hyundai Group Chairman Hyun Jeong-eun said that she is going to Mt. Baekdu next week to explore opening the area to ROK tourists, as agreed at the summit. END SUMMARY.

OBSTACLES REMAIN

¶2. (C) Hyundai Motor Company Chairman and CEO Chung Mong-koo, who led the 18-member CEO delegation to Pyongyang for the October 2-4 summit, Hyundai Group Chairman Hyun Jeong-eun, Samsung Electronics Vice Chairman and CEO Yun Jong-yong and Korea Land Corporation President Kim Jae-hyun replied to the Ambassador's question about their impressions from the summit by stressing the negatives. Chung said, and the others later agreed, that the summit had reinforced his impression that the North needed improvements in social capital, infrastructure (communications and energy), logistics and overall mindset before ROK businesses will see fit to invest. But discussions with DPRK officials on these issues had gone nowhere because they "had no concept of a market economy." He pointed out that it had been reported that 70 percent of the ROK companies operating in KIC were operating at a loss (although he acknowledged some profit may be intentionally under-reported for tax purposes).

¶3. (C) Samsung's Yun said that DPRK officials made the visiting CEOs uncomfortable by opening the meeting with propaganda about the need to get the United States off the

peninsula so that North and South Korea could resolve their problems by themselves. He also noted that Kim Jong-il had rejected the terms "openness" and "reform," which should be the basis of creating conditions for business. He cited the example of a Samsung joint venture in Pyongyang that makes televisions, radios and men's suits, saying that the DPRK's cumbersome transportation and customs clearance arrangements mean that it takes one month to get components to the plant (a process that should take no more than a matter of days). He said he has told DPRK officials that such limitations hinder business development, but they respond that opening up the transportation system would threaten regime security -- clearly their priority.

¶4. (C) Hyundai's Hyun said that DPRK officials complained that only small companies were active at KIC, rather than major conglomerates. The CEOs had replied that for large companies to become active, U.S.-DPRK relations would have to be transformed, which meant denuclearization; in terms of the investment climate, business, communication and transportation conditions would have to improve. Hyun said that she believed this information was reported to Kim Jong-il, resulting in a more forthcoming attitude on the denuclearization issue during the October 3 afternoon session. (Note: Kim invited Vice Foreign Minister Kim Gye-gwan to that session to give a briefing on the Six-Party Talks, which the ROKG delegation interpreted as the DPRK leader's tacit support for the Talks.) Hyundai's Hyun said that she understood Kim Jong-il to be relatively open to economic reform, but that his bureaucracy was the problem. She added that the DPRK had rejected the idea of Chinese-style economic opening.

¶5. (C) Asked about the summit declaration's proposal to establish an industrial zone in Haeju, near KIC, as part of a "West Sea Special Peace Zone," Hyun said that the new industrial park was not realistic at this time, and added that the ROKG floated the idea of the special zone so that it could establish joint fishing zones in the area (a controversial idea because it would involve civilian ships crossing the Northern Limit Line). She added that Haeju had been the ROK's original preference for the industrial park subsequently constructed at Kaesong, but at the time the waterfront site was considered too sensitive by the DPRK. Yun added that his company had proposed building a ship-building facility in Haeju, but the DPRK instead wanted it built on the east coast, because of Haeju's military sensitivity.

¶6. (C) Korea Land Corporation's (KLC) Kim Jae-hyun (whose company is ROKG-owned), put the best gloss on the summit, saying that the controversy about the terms "reform" and "openness" was only a difference of interpretation and that North Korean officials had eagerly agreed to future meetings with ROK companies.

ADDRESSING PROBLEMS

¶7. (C) Noting the CEOs' lack of enthusiasm for doing business in the North, the Ambassador asked whether more frequent meetings with ROK businesses, training opportunities for DPRK officials, or other approaches could improve the North's understanding of what was needed to improve the business climate, and whether the CEOs foresaw significant investments in the North within the next ten years. Samsung's Yun said that the DPRK would not allow its people to be trained in the ROK, but that his company had worked around this by bringing officials to China and Southeast Asia to see market economies in action. He and others stressed that the U.S. should play a role by offering training exchanges or encouraging U.S. companies to invest in the KIC. He noted that while six sites at the KIC had been reserved for foreign companies, thus far only two foreign companies (both Chinese) were operating at Kaesong.

¶ 8. (C) KLC's Kim stressed the importance of allowing products made at the KIC to receive access to the U.S. market under Free Trade Agreement terms. The Ambassador replied that this was an issue that could potentially be addressed over the longer term (using the FTA's provision on outward processing zones) if North Korea changed its behavior, but not now. In addition to resolving the nuclear issue, he noted, we would need to resolve some human rights concerns, especially the issue of whether portions of KIC worker salaries were being retained by the DPRK government. Kim said this had been raised, and DPRK authorities maintained they paid the entire salary to KIC workers, but the only way to establish certainty on the issue would be to establish a North Korean bank branch at Kaesong to handle payments to workers. The Ambassador said that could be a helpful step.

¶ 9. (C) On the question of investing in North Korea in the future, Chung gave an indirect answer about the need for fundamental change in North Korea and improvement in the international situation first. In contrast, Samsung's Yun noted that 90 percent of his company's assembly operations were now at overseas plants, and that North Korea, with its common language and educated labor force, would be a prime investment target if business conditions were to improve.

¶ 10. COMMENT: The four executives explained that, following the meeting with Ambassador, they were headed to the Blue House for a follow-up meeting on the Summit, so presumably the Roh Government is working hard to see if real business cooperation can materialize. However, based on the rather skeptical assessment of these four executives, it would seem optimistic to expect any deliverables -- beyond possible Mt. Baekdu tourism -- from the North-South Prime Ministers' Meeting scheduled for November 14-16. END COMMENT.
VERSHBOW